

FISCAL NOTE

Bill #: SB0266 **Title:** Bond to introduce genetically modified wheat
Primary Sponsor: Cobb, J **Status:** As Introduced

Sponsor signature	Date	Chuck Swysgood, Budget Director	Date
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Fiscal Summary

	<u>FY 2004 Difference</u>	<u>FY 2005 Difference</u>
Expenditures:		
State Special Revenue	\$0	\$300,000
Revenue:		
State Special Revenue	\$0	\$300,000
Net Impact on General Fund Balance:	\$0	\$0

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|---|---|
| <input type="checkbox"/> Significant Local Gov. Impact | <input checked="" type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input checked="" type="checkbox"/> Significant Long-Term Impacts |
| <input checked="" type="checkbox"/> Dedicated Revenue Form Attached | <input checked="" type="checkbox"/> Needs to be included in HB 2 |

Fiscal Analysis

ASSUMPTIONS:

1. The program would not be implemented until FY 2005. Based on discussions with industry, this is the earliest year that a bond would be posted. This would provide revenues to start up and implement the program. Only two varieties of genetically engineered wheat are known to be in the final stages of development, Roundup-ready wheat and Fusarium-resistant wheat. The date that patent holders will be ready to release these varieties in Montana is dependent upon receiving approval from the United States Department of Agriculture (USDA) and on the patent holders' marketing decisions. The patent holders do not expect USDA approval for either variety for one to three years.
2. Program implementation in FY 2005 will require 1.00 FTE (grade 15 FTE \$41,223 salary and benefits) and 0.25 FTE (grade 8 administrative support \$5,583 salary and benefits). Responsibilities of the grade 15 FTE will include coordination of board meetings, management of administrative services provided to the board, management of authorized expenditures and revenue, and drafting administrative rules. The grade 8 FTE will provide administrative services such as board minutes, scheduling, correspondence, typing, and filing. Personal services include \$1,400 for compensation to board members.
3. Operating expenses include reimbursement of the board travel expenses (\$5,979), staff travel (\$1,126), publishing costs for administrative rules (\$750), contract preparation of a position description (\$600), one

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computer (\$1,600), start up costs to furnish an office (\$2000), indirect charges for administration (\$9,641), rent (\$1,923), communications (\$1,290) and other program operating and supplies expenses (\$1,004).

4. Section 3 states that if there are interest earnings in excess of administrative costs, the balance must be appropriated to the department to promote Montana agricultural products. The department assumes \$225,881 [\$300,000-\$74,119 (adding assumptions 2 & 3)] would be available for the purposes defined in Section 3; and 75 per cent (\$169,410) would be used for grants and 25 per cent (\$56,471) would be used for contracted services to promote Montana agricultural products.
5. Revenues are calculated as a 3 per cent return on an investment of \$10,000,000 for a bond posted on July 1, 2004. This is based on current rates of return for conservative investments in government backed treasury notes and federally insured funds managed by the Board of Investments. Section 3 requires that the department invest each bond in a "federally insured investment program." The department assumes that this refers to investing in federally insured securities and investments such as federally insured bonds.
6. The Board of Investments will invest bond principle and the board will be the department's "state fiduciary agent" as required under Section 7.
7. During FY 2005, the assumption is made that no claims will be paid from the fund and no hearings or investigations will take place.

FISCAL IMPACT:

	<u>FY 2004</u>	<u>FY 2005</u>
Dept. of Agriculture Program 50	<u>Difference</u>	<u>Difference</u>
FTE:	0	1.25

Expenditures:

Personal Services	0	\$48,206
Operating Expenses	0	82,384
Grants	0	<u>169,410</u>
TOTAL	0	\$300,000

Funding of Expenditures:

State Special Revenue (02)	0	\$300,000
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Revenues:

State Special Revenue (02)	0	\$300,000
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Net Impact to Fund Balance (Revenue minus Funding of Expenditures):

State Special Revenue (02)	0	0
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LONG-RANGE IMPACTS:

1. Long-range fiscal impacts are dependent upon the development of genetically engineered wheat varieties and the decisions of companies to commercially introduce them in Montana. After the first year of the program, costs may increase as a result of paying of claims, hearing costs and investigation costs for appeals of claims.

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TECHNICAL NOTES:

1. The type of bond required by Section 3 is not clearly defined. The department assumes that this bond must be in the form of a “cash bond” or liquid security so that it can be invested, the earnings made available for program expenses, and the principle drawn down as needed for payment of claims.
2. Section 3 requires the bonds be placed in a state special revenue fund. Generally accepted accounting principles require the principle of the bond be placed in a permanent trust fund. The interest from the bond could be placed in a state special revenue fund.
3. A statutory appropriation will be necessary to implement Section 3, subsection (2).
4. In Section 3, subsections (2) and (8) seem contradictory.
5. In Section 4, “grain shipper” is vague in that a “grain shipper” may be the same as a licensed grain merchant.
6. Section 5 does not provide appointed board members \$35 compensation for travel days when the board does not meet.
7. Section 8 does not provide authority to investigate claims.
8. Section 2, subsections 2, 3 and 12 defines “fund” as the wheat bond fund established pursuant to [section 3]. Section 3 indicates that there is a wheat bond fund in the state special revenue fund. Section 12 infers that a claimant can file against the total fund instead of the specific bond within the fund. Each bond will require a separate accounting and tracking.

DEDICATION OF REVENUE:

- a) *Are there persons or entities that benefit from this dedicated revenue that do not pay? (please explain).*
Yes. The patent holder puts up the bond. Persons who are awarded claims from damages would benefit. The agricultural community will benefit from the interest earnings spent to promote Montana agriculture that are in excess of the department’s administrative costs.
- b) *What special information or other advantages exist as a result of using a state special revenue fund that could not be obtained if the revenue were allocated to the general fund? Makes tracking the expenditures and revenue collected easier.*
- c) *Is the source of revenue relevant to current use of the funds and adequate to fund the program activity that is intended? ☒X Yes ☐No (if no, explain)*
- d) *Does the need for this state special revenue provision still exist? ☒X Yes ☐No (Explain)*
It should be noted that generally accepted accounting principles require the principle of the bond to be placed in a permanent trust fund and the interest from the bond could be placed in a state special revenue fund.
- e) *Does the dedicated revenue affect the legislature’s ability to scrutinize budgets, control expenditures, or establish priorities for state spending? (Please Explain) No.*
- f) *Does the dedicated revenue fulfill a continuing, legislatively recognized need? (Please Explain) Yes, contingent on passage & approval of SB 266.*

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- g) *How does the dedicated revenue provision result in accounting/auditing efficiencies or inefficiencies in your agency?* (Please Explain. Also, if the program/activity were general funded, could you adequately account for the program/activity?) The Department uses the same methods of tracking and managing program expenditures whether the source of funding is general fund or special revenue. However, a special revenue account would allow the Department to fully evaluate expenditures in light of revenues and to implement timely changes necessary to ensure program is self-supporting.